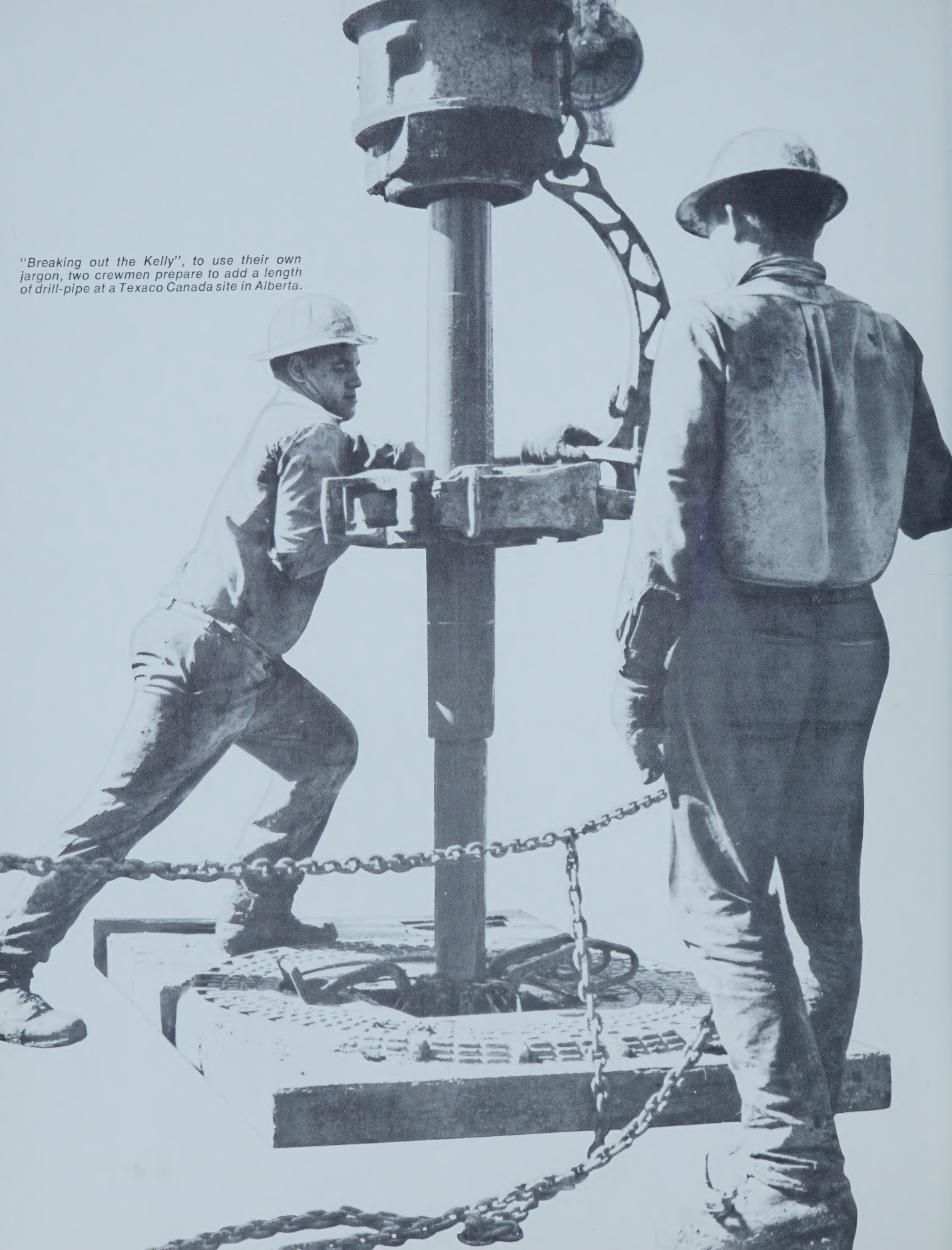
AR25

Texaco Canada Limited

1968 Annual Report



"Breaking out the Kelly", to use their own jargon, two crewmen prepare to add a length of drill-pipe at a Texaco Canada site in Alberta.

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COVER: Processing units at the Company's Edmonton refinery take on a surrealistic vibrancy when a small section of the original photograph is enlarged.

Directors and Officers

DIRECTORS

*A. W. Baucum,
Executive Vice-President,
Texaco Inc.,
Houston, Texas.

D. F. Bentley, Q.C.,
Vice-President and General Counsel,
Texaco Canada Limited,
Montreal, Quebec.

*Roland Bock,
President and Managing Director,
Bock & Tétreau Limitée,
Montreal, Quebec.

Stanley D. Clarke,
President,
Clarke Traffic Services, Ltd.,
Montreal, Quebec.

Charles H. Dodson,
Vice-President,
Texaco Inc.,
Chicago, Illinois.

*A. G. Farquharson,
President,
Texaco Canada Limited,
Montreal, Quebec.

*John W. Green,
Executive Vice-President,
Texaco Inc.,
New York, N.Y.

H. J. Lang,
Chairman and President,
Canron Limited,
Montreal, Quebec.

*L. J. McGowan,
Chairman,
Taylor, Woodrow of Canada Limited,
Toronto, Ontario.

Paul Murdock,
President,
John Murdock & Son Ltd.,
Chicoutimi, Quebec.

Hon. Victor deB. Oland,
Lieutenant-Governor,
Province of Nova Scotia,
Halifax, N.S.

D. G. Willmot,
President and
Chief Executive Officer,
Molson Industries Limited,
Toronto, Ontario.

*Edward C. Wood,
President,
Edwood Ltd.,
Montreal, Quebec.

*Member Executive Committee.

PRINCIPAL OFFICERS

A. G. Farquharson,
President.

D. F. Bentley, Q.C.,
Vice-Pres. and Gen. Counsel.

W. C. Howells,
Vice-President.

J. E. King,
Vice-President.

J. G. Light,
Vice-President.

H. N. Cleworth,
Comptroller.

J. R. C. Boyce,
Secretary.

H. T. Hudson,
Treasurer.

Transfer Agents in Canada:
Montreal Trust Company,
Montreal, Toronto, Winnipeg,
Calgary and Vancouver.

Registrars in Canada:
Royal Trust Company, Montreal, Toronto,
Winnipeg, Calgary and Vancouver.

Transfer Agents and Registrars in
United States:
The Royal Bank of Canada Trust Company,
68 William Street, New York, N.Y.

Highlights

FINANCIAL	1968	1967
Gross income	**$310,270,943**	$284,086,593
Net income	**$ 20,735,763**	$ 17,055,474
Net income per common share	**$ 2.12**	$ 1.74
Cash dividends paid on common stock	**$ 7,189,366**	$ 6,120,676
Outstanding common shares (end of year)	**9,715,359**	9,715,359
Capital expenditures	**$ 23,395,584**	$ 22,584,363
Working capital (end of year)	**$ 35,631,966**	$ 36,979,201
Total assets (end of year)	**$328,601,999**	$300,002,737

OPERATING	1968	1967
Gross crude oil production (barrels daily)	**19,036**	16,488
Refinery runs (barrels daily)	**132,561**	125,413
Sales of petroleum products (barrels daily)	**134,205**	125,857

To the Shareholders:

The Company's net income in 1968 was $20.7 million, equal to $2.12 per common share, an increase of 21.6% over the previous year.

Consolidated gross income reached a record level of $310.3 million. Gross revenue from sales and services increased 9.1%. Revenue from other sources, including investments also increased.

The growth in net income reflected new high levels in the Company's producing, refining and marketing operations, as well as the effects of the continuing program to bring about greater productivity while keeping increases in operating expenses to a minimum.

The Company's gain in gross production of crude oil and natural gas liquids during the year resulted from additional drilling and further implementation by the Alberta Oil and Gas Conservation Board of the revised proration formula.

Favourable conditions at Texaco Canada's four refineries enabled the Company to operate them at 105.5% of the rated capacity, and to process 6% more crude oil than in the previous year.

The record sales level attained in 1968 included satisfactory gains in the sales of all major products, particularly motor gasolines.

For the Canadian petroleum industry as a whole, 1968 was another year of expansion in all phases of its operations.

Production increased by 8.4% to an average of 1,200,000 barrels a day, while exploratory drilling increased by close to 10% over the 1967 level.

During 1968 interest in the exploration for crude oil in Canada's northern territories was stimulated by the discovery of apparently large-scale reserves at Prudhoe Bay in Alaska.

Refining processing reached a daily average level of about 1,140,000 barrels, an increase in the range of 6% over 1967. A high rate of utilization of capacity was achieved in 1968, and there was a slight increase in the nominal crude processing capacity.

Demand for petroleum products in Canada totalled about 1,375,000 barrels daily in 1968, or approximately 6½% more than the 1967 demand of about 1,295,000 barrels daily.

The Canadian economy continued to move forward in 1968, with the Gross National Product advancing some 4½% in real terms.

It is anticipated that there will be a continuation of this growth rate in 1969.

The petroleum demand level should reach approximately 1,450,000 barrels daily for an increase of about 5½%.

Government enquiries into product pricing continued to occupy much time and attention on the part of the Company and the industry in Canada.

Texaco Canada submitted a brief in 1967 to the Nova Scotia Royal Commission on the Price Structure of Gasoline and Diesel Fuel. It is hoped that the Nova Scotia Government will implement the recommendations made by the Commissioner in 1968 for the relaxation of onerous regulations.

The Company also appeared during the year before the Legislative Committee of the British Columbia Gov-

ernment to comment on the report of the Royal Commission on the Price Structure of Gasoline.

It has been repeatedly demonstrated that the average wholesale price of gasoline, minus Federal sales tax, in Canada has declined during the last ten years. Continual increases in the taxes, principally provincial road taxes on motor fuels, have tended to obscure this fact. Consequently, it is hoped that both the public and the oil industry will be spared the expense of further redundant governmental investigations.

As this Annual Report goes to press we have just received the report of the Gasoline Marketing Enquiry Committee which was appointed by the Alberta Government in 1965. The Company is giving careful study to this report which appears to be arbitrary and illogical as well as unfair to the motoring public and the oil industry.

On January 1, 1969, Andrew G. Farquharson, Vice-President, Refining, and a Director, was elected President of Texaco Canada Limited, succeeding Frank M. Dawson. Mr. Dawson retired on December 31, 1968 after 40 years of dedicated and distinguished service with the Texaco organization. He had been President and a Director of Texaco Canada since 1963. His leadership and wise counsel will be greatly missed.

The Directors extend their sincere appreciation to the Company's customers, to the shareholders and to the employees whose support and loyalty made possible the Company's progress during the past year.

A review of the Company's operations in 1968 and financial position at year-end is contained in the following pages.

Respectfully submitted on behalf of the Board of Directors,

A. G. Farquharson.

President

Montreal, Que., March 28, 1969

The new Texaco Building in the pleasant Toronto suburb of Don Mills was completed in 1968. It houses the Company's Ontario sales division, the central accounting and the offices of The Elias Rogers Company Limited.

Financial

EARNINGS AND DIVIDENDS
The consolidated net income of $20.7 million, a new peak level, was 21.6% more than the 1967 net income of $17.1 million. Net income per common share amounted to $2.12 compared to $1.74 in 1967.
Cash dividends paid on common shares in 1968 totalled $7.2 million or 74 cents per share, an increase of 17.5% over the $6.1 million or 63 cents per share paid in 1967.
The Company increased its quarterly dividend from 18 to 20 cents per common share, effective in the fourth quarter.

GROSS INCOME
Consolidated gross income totalled $310.3 million or 9.2% more than the 1967 gross income of $284.1 million.

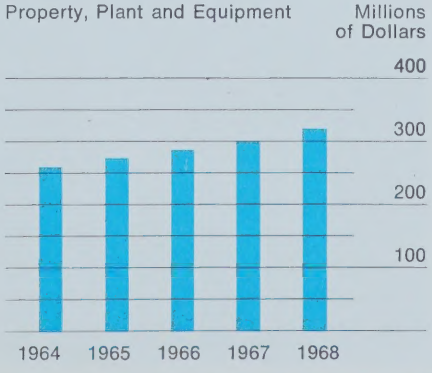
COSTS AND OTHER DEDUCTIONS
Costs and other deductions, excluding taxes, totalled $245.9 million, an increase of 7.4% over the 1967 level of $229 million. This increase in costs was due primarily to higher wage rates and prices of materials and services.

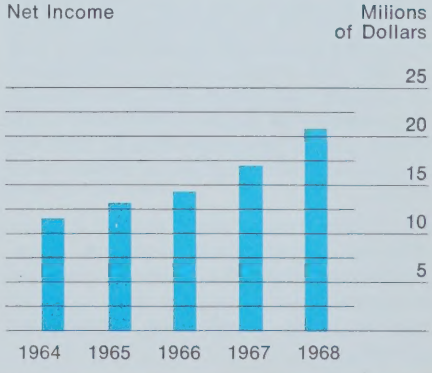
TAXES
Current income taxes, Federal sales tax, and municipal taxes totalled $42.5 million, equivalent to $4.37 per common share, an increase of 24.6% over 1967 taxes which totalled $34.1 million, or $3.51 per common share. In addition, taxes on petroleum product sales collected by the Company for provincial governments totalled $137.6 million or 22.9% more than the $112 million collected in 1967. Seven of the ten provinces increased their tax rates on petroleum products during the year.

CAPITAL EXPENDITURES
Capital expenditures were slightly higher at $23.4 million, compared to $22.6 million in 1967.

FINANCING
The Company borrowed $3.4 million during 1968 to finance the purchase of a new tanker to replace the SS Texaco Warrior.

TOTAL ASSETS
Total assets of the Company increased by 9.5% during 1968 to reach $328.6 million at year end, as compared to $300 million at the end of 1967.





Producing

Texaco Canada's gross production of crude oil and natural gas liquids in 1968 totalled 19,036 barrels daily, an increase of 15.5% over the production of 16,488 barrels per day in 1967. After deducting royalty interest, net production amounted to 16,530 barrels daily compared to 14,354 barrels daily in 1967.

The Company's increase in production was aided by continued success in the Zama Lake field and by the higher allowables allocated to certain high reserve pools in Alberta.

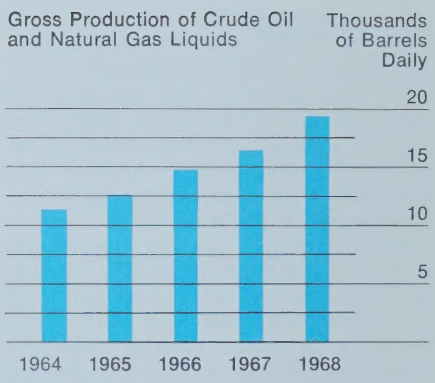
A jointly-owned water supply facility was constructed and the first injection of water was commenced into two of the Zama Lake Keg River pools. The Company participated in the formation of a field-wide unit in the Nipisi field to initiate pressure maintenance by water injection. Both these projects will increase the Company's recoverable reserves.

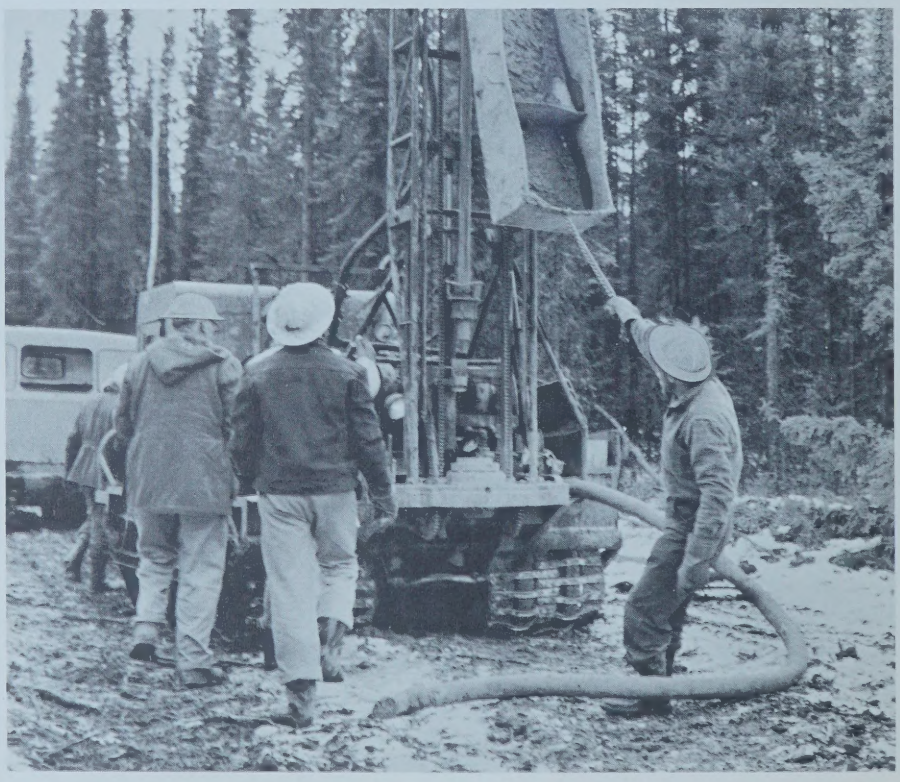
The Company increased its land holdings to 3.3 million acres at the end of 1968, as compared to 1.1 million acres held at the end of 1967. Included in the 2.2 million acres acquired, were two additional blocks of permits in the Northwest Territories, four reservations in Alberta, one permit and three drilling reservations in British Columbia and one drilling reservation in Saskatchewan. In addition, the Company held 82,000 net royalty interest acres at the end of 1968.

Exploration was accelerated by additional geophysical work on prospective acreage. A surface geological reconnaissance survey was carried out on one Northwest Territories permit.

The Company participated in the drilling of 21 wells in 1968, and in addition, 19 wells were drilled on lands in which the Company owns a royalty interest. Of the 43 wells completed during 1968, 28 were successful oil or gas wells.

The Company's proved reserves of crude oil and natural gas liquids increased substantially despite record production during the year.





ABOVE: While his helicopter waits, a Texaco Canada geologist takes rock-outcrop samples in a prospective area of the Northwest Territories.

FAR LEFT: Crew of a mobile unit prepares to drill a seismic shot-hole in northern Alberta.

LEFT: A typical drilling-rig, and a young crew member rolling lengths of pipe in preparation for use.

Refining

The Company processed a total of 132,561 barrels of crude oil daily at its four refineries during 1968, an increase of 6% over the 125,413 barrels daily processed in 1967.

At Edmonton Plant, a new Hydrotreater, having a capacity of 3,000 barrels daily, was brought into production. This new unit enabled the Company to further improve the quality of its diesel fuels marketed in Western Canada. Field work commenced on expansion of the crude oil processing capacity of the plant to 18,000 barrels daily, completion of which is scheduled for late 1969.

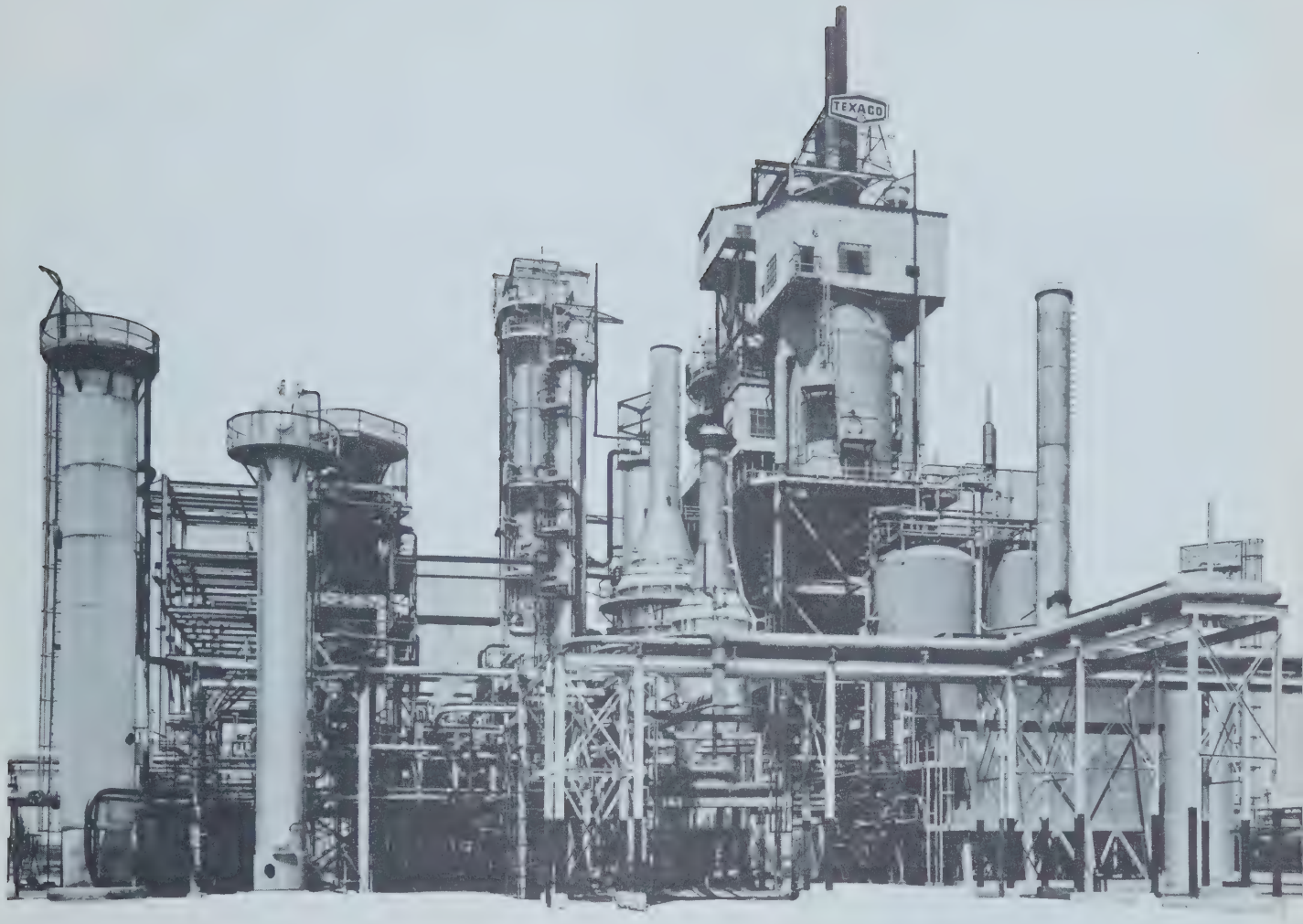
The Port Credit Plant achieved a new high level in the amount of crude oil processed, exceeding its nominal rated capacity of 37,000 barrels daily by about 10%. The production of petrochemicals increased 4%.

At Montreal Plant, a new crude oil storage tank, having a capacity of 320,000 barrels, was placed in service at mid-year. Construction also began in 1968 on another tank of similar capacity which will be used for the storage of domestic heating fuels. The rated capacity of Montreal Plant increased to 61,000 barrels daily at year end.

Major renovation of three furnaces in this plant resulted in a significant reduction in the amount of fuel consumed in the crude oil distillation process.

During 1968 a new 150,000 barrel heavy fuel oil tank was placed in service at Halifax Plant.

The Company's air and water conservation program was pursued vigorously during the year in close cooperation with various governmental authorities.



OPPOSITE: This vacuum distillation tower, seen being taken down at Port Credit Plant (where it has been replaced by a larger unit) made a 2000-mile rail journey to play a part in the expansion of Edmonton Plant's rated capacity.

ABOVE: Major processing units of the Company's refinery at Montreal East, where rated capacity was raised at the end of 1968 to 61,000 barrels daily.

Transportation

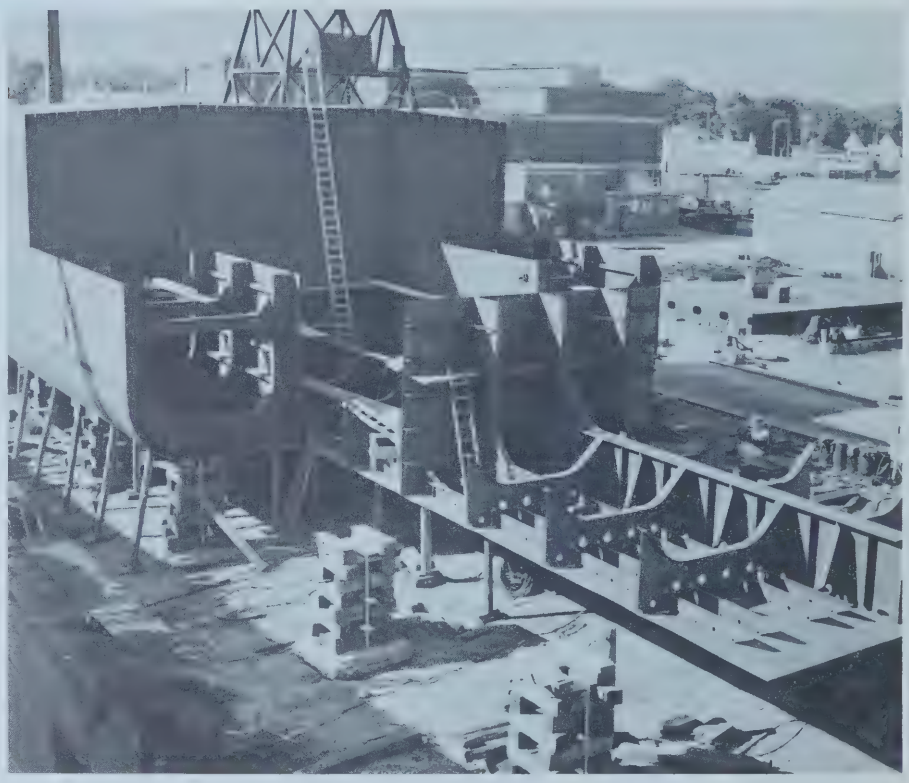
During 1968 construction began on a modern coastal tanker to replace the SS Texaco Warrior, which is being retired. The new vessel, with a 50,000 barrel capacity, is reinforced to permit year-round navigation. Due for commissioning in the spring of 1969, the vessel is being equipped with the latest navigational aids and automation of many of its facilities.

The Federated Pipe Line system, in which Texaco Canada has a 50% interest, transported an average 156,000 barrels of Alberta crude daily during 1968 compared to 140,200 barrels daily in 1967, an increase of 11.3% over the previous year. Capacity of the system was expanded to 175,000 barrels per day by an increase in the pumping capacity.

The Portland-Montreal Pipe Line system completed another step in its expansion program when the capacity was raised to 504,000 barrels daily from the previous level of 400,000 barrels daily. Texaco Canada owns a 16% interest in this system.

The Trans-Northern Pipe Line system, in which Texaco Canada has a 33⅓% interest, increased the capacity of its eastern section in order to handle increased throughput. This pipeline transports products from Montreal to the Ottawa Valley area and from the Toronto/Hamilton area as far east as Kingston.

The Company increased its use of "jumbo" tank cars during 1968 to effect further transportation savings. The "jumbo" tank cars now represent nearly 70% of the total leased tank car fleet.



TOP: Sleek, modern lines of Texaco Canada's new 50,000-barrel products tanker, being commissioned this spring, show up in the naval architects' rendering.

ABOVE: An early construction view of the hull.

ABOVE: A strong breeze snaps the Texaco house-flag during the tanker's launching at Collingwood, Ont. in December 1968.

RIGHT: Surveyors for the Federated Pipe Line system go over the route of a crude oil gathering line in the Swan Hills field of Alberta.

Marketing

Sales of petroleum products reached an all-time high average of 134,205 barrels daily, 6.9% more than the 125,857 barrels daily in 1967. Increases were recorded in the sales of all major petroleum products, a reflection of effective marketing programs which were developed for the retail, wholesale and commercial markets across Canada.

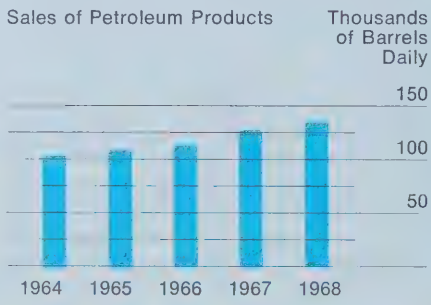
The Company continued its program of building carefully located, modern and attractive service stations to provide its ever-growing number of customers with high quality Texaco products and efficient service. Many of these new service stations were constructed in the rapidly developing areas surrounding major cities. A substantial number of the Company's older service stations were renovated or modernized on properties whose location would be of continuing convenience to the motorists.

The average volume per service station also reached an all-time high, and the Company increased its share of the gasoline market across the country. Programs designed to assist Texaco retailers to improve the volume and profitability of their individual outlets, as well as the continuing success of the advertising and sales promotion program, contributed to those results.

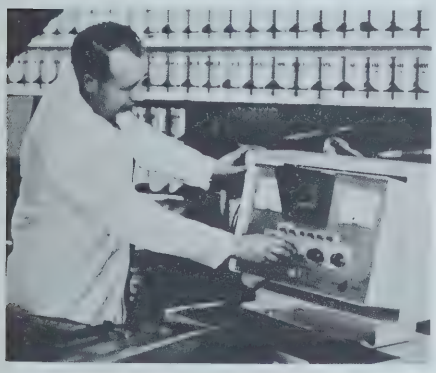
The Company continued to offer the convenience of Texaco credit card service to motorists. The number of active accounts increased substantially and sales to credit card customers reached an all-time high in 1968.

New bulk stations were constructed to extend the marketing areas served by the Company. Facilities at several sales terminals and bulk stations were improved to provide increased productivity and lower cost of operation.

The profit and expense position of the many activities related to the Company's marketing operations continued to be under review and numerous projects were initiated to reduce the cost of doing business. Training programs for Company employees, retailers and their employees, were continued throughout the year at an accelerated pace as new facilities were provided for this purpose.



This Texaco service centre near Port Hope on Ontario's Highway 401 features a distinctively domed restaurant. The centre is one of six sites along this important artery obtained by the Company in competitive bidding.



ABOVE: Among the many new service stations constructed in growing suburban areas during the past year was this pleasingly styled "Community" type at La Salle, Que., near Montreal.

LEFT: Seen increasingly in Texaco service stations are electronic engine tuning analysers like this one in use at Toronto.

Employee and Public Relations

At December 31, 1968, the Company and its subsidiaries had 3,441 employees, compared to 3,424 a year earlier. Payroll and employee benefit costs amounted to $30.1 million compared to $27.7 million in 1967.

Manpower development was broadened by intensive training programs, and during 1968 an improved Educational Assistance Program went into effect. A total of 170 employees enroiled in courses at more than 50 educational institutions.

The Company's Personnel Inventory and Appraisal Program continued to provide for the most effective selection, placement and development of key personnel.

Recruiting of professional and technical personnel was carried out at 19 Canadian universities and at technological institutions, an activity which is vital to the continuing growth and development of the Company.

Texaco Canada Merit Scholarships were awarded to 18 children of employees, providing annual tuition and other fees towards baccalaureate degrees at Canadian universities and colleges. Since its inception in 1966, 52 students have been awarded scholarships under this program. Safety continued to be emphasized throughout the Company. Two marketing areas and one refinery operated without a lost-time accident in 1968.

Through its own publications and the news media, Texaco Canada sought to keep shareholders, employees, retailers and other customers informed about its activities.

Among the mailings to shareholders was a digest of the Company's submission to the Carter Royal Commission on Taxation.

The Company's program of financial support to educational, health, welfare and other institutions was continued.

An increase was noted in requests from investors, students and the general public for information about the Company. Many high schools across Canada continued to request copies of the English and French editions of ''Prime Ministers of Canada'', Texaco Canada's Centennial year booklet. By the end of 1968 distribution totalled close to 600,000 copies.

Consolidated Statement of Income and Retained Earnings

	For the years ended December 31	
GROSS INCOME	**1968**	1967
Sales and services	**$306,921,299**	$281,444,685
Income from investments	**2,968,852**	2,481,207
Other income	**380,792**	160,701
	310,270,943	284,086,593
DEDUCTIONS		
Costs and operating expenses	**185,992,999**	173,650,712
Selling, general and administrative expenses (Note 5)	**46,956,213**	43,150,884
Depreciation, depletion and amortization (Notes 2 and 4)	**11,106,545**	10,306,680
Interest charges	**1,821,561**	1,866,295
*Taxes, other than income taxes	**26,227,862**	23,789,148
Provision for income taxes — current	**16,239,000**	10,302,000
— deferred (Note 4)	**1,191,000**	3,965,400
	289,535,180	267,031,119
NET INCOME FOR THE YEAR	**20,735,763**	17,055,474
RETAINED EARNINGS AT BEGINNING OF YEAR	**123,843,873**	113,350,536
	144,579,636	130,406,010
DIVIDENDS DECLARED — preferred stock	**150,000**	150,000
— common stock	**7,383,673**	6,412,137
	7,533,673	6,562,137
RETAINED EARNINGS AT END OF YEAR	**$137,045,963**	$123,843,873

*In addition, provincial motor fuel and oil taxes were paid or accrued in the amount of $137,636,951 during 1968 and $111,954,552 during 1967.

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheet AS AT DECEMBER 31, 1968 AND 1967

ASSETS

	1968	1967
CURRENT ASSETS		
Cash	**$ 8,195,813**	$ 6,057,233
Accounts receivable	**68,894,259**	58,343,736
Inventories		
Crude and refined oil products and merchandise valued on average cost basis which in the aggregate was lower than market	**44,348,970**	39,046,097
Materials and supplies, at cost	**1,108,555**	1,701,437
Total current assets	**122,547,597**	105,148,503
INVESTMENTS		
Investments in non-subsidiary companies, at cost	**4,416,649**	3,587,697
Receivables, secured by mortgages, agreements of sale, etc.	**7,899,968**	8,232,321
Total investments	**12,316,617**	11,820,018
PROPERTY, PLANT AND EQUIPMENT, at cost		
Producing (Note 4)	**64,651,024**	60,867,935
Manufacturing	**121,797,990**	117,818,260
Marketing	**126,252,033**	118,358,883
Other	**7,236,828**	3,935,939
	319,937,875	300,981,017
Less: Depreciation, depletion and amortization (Notes 2 and 4)	**133,140,552**	125,405,487
Net property, plant and equipment	**186,797,323**	175,575,530
DEFERRED CHARGES		
Premium paid on subsidiary companies' capital stock, less amortization	**3,855,821**	4,164,593
Prepaid expenses and other deferred charges (Note 3)	**3,084,641**	3,294,093
Total deferred charges	**6,940,462**	7,458,686
	$328,601,999	$300,002,737

Approved on behalf of the Board:

A. G. FARQUHARSON, Director

EDWARD C. WOOD, Director

LIABILITIES AND SHAREHOLDERS' EQUITY

	1968	1967
CURRENT LIABILITIES (Note 1)		
Accounts payable and accrued liabilities		
Affiliated companies	**$ 33,038,890**	$ 25,241,076
Other	**17,839,873**	18,465,509
Sales, motor fuel and sundry taxes	**12,211,330**	9,543,077
Income taxes	**8,711,091**	5,326,375
Long-term debt due within one year (Note 3)	**13,133,875**	7,807,000
Dividends payable	**1,980,572**	1,786,265
Total current liabilities	**86,915,631**	68,169,302
LONG-TERM DEBT (Notes 1 and 3)	**29,960,156**	34,500,313
DEFERRED CREDITS — INCOME TAXES (Note 4)	**37,566,505**	36,375,505
SHAREHOLDERS' EQUITY		
PREFERRED STOCK		
4% cumulative redeemable preferred shares of $100 par value (Redeemable at $102.50 on thirty days' notice) Authorized — 77,500 shares Issued — 37,500 shares	**3,750,000**	3,750,000
COMMON STOCK AND RETAINED EARNINGS		
Common shares of no par value Authorized — 14,926,578 shares Issued — 9,715,359 shares	**33,363,744**	33,363,744
Retained Earnings	**137,045,963**	123,843,873
Total common stock and retained earnings	**170,409,707**	157,207,617
	$328,601,999	$300,002,737

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. United States dollar balances included in current liabilities have been converted to Canadian dollars at the rate of exchange at December 31, 1968. Long-term debt payable in United States dollars has been converted at rates of exchange in effect when the notes were issued.

2. Depletion charged to income during 1968 totalled $452,000, and at December 31, 1968 the accumulated balance of depletion in the Companies' accounts was $5,989,000.

3. The long-term debt of Texaco Canada Limited and its subsidiaries at December 31, 1968 and 1967 is as follows:

	1968	1967
Texaco Canada Limited —		
First mortgage bonds (authorized and issued $20,000,000)		
3% Sinking fund bonds, 1946 series, due in equal annual instalments of $465,000 to 1970 and $920,000 in 1971	**$ 1,850,000**	$ 2,315,000
3¼% Sinking fund bonds 1947 series, due in equal annual instalments of $535,000 to 1971 and $545,000 in 1972	**2,150,000**	2,685,000
Due to Texaco Inc.		
4% Notes due $1,000,000 annually to 1982 (1968 U.S. $14,000,000, 1967 U.S. $15,000,000)	**15,082,656**	16,168,438
7¼% Note due 1973 (U.S. $5,000,000)	**5,365,625**	—
4½% Note due 1968 (U.S. $5,000,000)	**—**	5,406,250
4½% Note due 1969 (U.S. $10,000,000)	**10,731,250**	10,803,125
7.647% Notes due in equal annual instalments of $160,000 from 1970 to 1989 (U.S. $3,200,000)	**3,437,500**	—
Regent Refining (Canada) Limited and Subsidiary —		
4¼% Sinking fund debentures, Series A, due in equal annual instalments of $400,000 to 1974 and $1,400,000 in 1975	**3,800,000**	4,200,000
4¾% First mortgage sinking fund bonds, Series A, due in equal annual instalments of $62,500 to 1981	**810,000**	872,500
	$43,227,031	$42,450,313
Less: Long-term debt due within one year and bonds held for sinking fund requirements (1968 $133,000; 1967 $143,000)	**$13,266,875**	$7,950,000
	$29,960,156	$34,500,313

Deferred charges at December 31, 1968 included $91,050 unamortized debt discount and expense.

4. Provision is made in the Companies' accounts to reflect the income tax effect applicable to transactions recorded in the Companies' financial statements in a reporting period different from the period in which they are reported for income tax purposes.

The deferred credits for income taxes shown in the balance sheet represent the cumulative effect of net charges made against earnings in 1968 and prior years to defer these income tax effects to appropriate future periods in the Companies' financial statements. This accounting policy allocates the income tax effect of transactions to the period in which such transactions are recorded for financial reporting purposes.

In 1967 and prior years, such deferrals were reflected in the financial statements as additional depreciation, depletion and amortization. In accordance with a recommendation of the Canadian Institute of Chartered Accountants, effective with financial statements for the year 1968 these deferrals have been classified in the financial statements as deferred credits, with the appropriate 1967 accounts reclassified for comparative purposes. The reclassification had no effect on net income for 1968 or prior years.

5. Selling, general and administrative expenses include amortization of $309,000 premium paid on subsidiary companies' capital stock and $397,000 fees and other remuneration paid to directors and principal officers.

6. The Companies' group pension plan is available to substantially all employees and the actuarial cost of pension benefits is amortized over the estimated service lives of the employees involved. A provision is made for funding of pension costs by deposits made to an insurance company.

7. As of December 31, 1968, Texaco Canada Limited and subsidiary companies had long-term leases expiring more than three years from such date, covering service stations, tankers, office buildings and other facilities. Minimum amounts payable under such commitments without reduction for related rental income are expected to average $7,700,000 annually for the next three years. Under certain lease agreements for service stations expiring in 1970, Texaco Canada Limited is obligated to make annual rental payments of approximately $2,000,000 and is contingently liable for loans to the lessors in an amount not to exceed $24,500,000 due in 1970. The Company has an option to purchase these service stations for the amount of the contingent liability.

Under long-term agreements with pipeline companies in which stock interests are held, the Company guarantees specified revenue from crude and refined products shipped and in the event such companies are unable to meet debt obligations, Texaco Canada Limited may be required to advance funds against future transportation charges. The contingent liability arising from such agreements, together with certain liabilities on discounted notes, amounted to $15,015,000 at December 31, 1968.

No losses are anticipated by reason of the above contingent obligations. In the opinion of the Company's general counsel while it is impossible to ascertain the ultimate and legal financial liability with respect to other contingent liabilities, including lawsuits, income taxes, claims, guarantees, etc., the aggregate amount of such liability is not materially important in relationship to the total consolidated assets of the Company and its subsidiaries.

8. Subsequent to December 31, 1968, a subsidiary company has agreed to sell an office building and land. Net income from this sale is expected to be approximately $1,700,000.

Auditors' Report

To the Shareholders
Texaco Canada Limited

We have examined the consolidated balance sheet of Texaco Canada Limited and its subsidiaries as at December 31, 1968 and the consolidated statements of income and retained earnings and source and disposition of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the Company and its subsidiaries as at December 31, 1968 and the results of their operations and the source and disposition of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Riddell, Stead, Graham & Hutchison,
Chartered Accountants.

February 7, 1969
Montreal, Quebec

A Ten Year Review of our Business

	1968	1967	1966
Gross income	**$310,270,943**	$284,086,593	$257,485,194
Net income	**$ 20,735,763**	$ 17,055,474	$ 14,589,648
Dividends declared on preferred stock	**$ 150,000**	$ 150,000	$ 150,000
Net income on common stock	**$ 20,585,763**	$ 16,905,474	$ 14,439,648
*Net income per common share	**$ 2.12**	$ 1.74	$ 1.49
Cash dividends paid on common stock	**$ 7,189,366**	$ 6,120,676	$ 5,829,215
*Cash dividends paid per common share	**$ 0.74**	$ 0.63	$ 0.60
Capital expenditures	**$ 23,395,584**	$ 22,584,363	$ 17,016,695
**Provision for depreciation, depletion and amortization	**$ 11,106,545**	$ 10,306,680	$ 9,660,664
**Provision for income taxes — deferred	**$ 1,191,000**	$ 3,965,400	$ 3,335,000
At end of year —			
Working capital (current assets less current liabilities)	**$ 35,631,966**	$ 36,979,201	$ 40,876,229
Ratio current assets to current liabilities	**1.41**	1.54	1.66
**Property, plant and equipment (gross)	**$319,937,875**	$300,981,017	$283,685,410
**Property, plant and equipment (net)	**$186,797,323**	$175,575,530	$164,722,786
**Total assets	**$328,601,999**	$300,002,737	$286,903,301
Long-term debt	**$ 29,960,156**	$ 34,500,313	$ 42,436,719
Number of outstanding common shares (of no par value)	**9,715,359**	9,715,359	3,238,453
Number of common shareholders	**5,349**	5,478	4,581
Number of outstanding preferred shares ($100 par value)	**37,500**	37,500	37,500
Number of preferred shareholders	**828**	859	912
Gross crude oil production (barrels daily)	**19,036**	16,488	14,070
Net crude oil production (barrels daily)	**16,530**	14,354	12,412
Crude oil purchases, less sales (barrels daily)	**120,757**	105,211	103,412
Sales of petroleum products (barrels daily)	**134,205**	125,857	115,253
Refinery runs to stills (barrels daily)	**132,561**	125,413	113,497
Total payrolls and employee benefits	**$ 30,069,772**	$ 27,711,347	$ 25,077,303
Number of employees (end of year)	**3,441**	3,424	3,347

*Net income and cash dividends paid per common share for 1967 and prior years, have been adjusted for the three-for-one stock split on February 1, 1967.

**Information re-stated for 1967 and prior years. Refer to Note 4 to Financial Statements.

1965	1964	1963	1962	1961	1960	1959
$238,103,243	$227,023,955	$216,361,875	$196,549,259	$192,278,280	$188,549,576	$185,138,196
$ 13,150,768	$ 11,363,086	$ 10,739,740	$ 9,706,965	$ 10,192,968	$ 11,100,187	$ 10,388,014
$ 150,000	$ 150,000	$ 150,000	$ 150,000	$ 150,000	$ 150,000	$ 152,556
$ 13,000,768	$ 11,213,086	$ 10,589,740	$ 9,556,965	$ 10,042,968	$ 10,950,187	$ 10,235,458
$ 1.34	$ 1.15	$ 1.09	$ 0.98	$ 1.03	$ 1.13	$ 1.05
$ 5,181,525	$ 5,181,525	$ 5,181,525	$ 5,181,525	$ 5,181,525	$ 5,181,525	$ 5,181,525
$ 0.53	$ 0.53	$ 0.53	$ 0.53	$ 0.53	$ 0.53	$ 0.53
$ 20,389,129	$ 18,733,716	$ 36,664,273	$ 19,199,564	$ 14,248,708	$ 15,574,658	$ 15,924,089
$ 8,723,024	$ 8,843,039	$ 7,599,850	$ 8,084,716	$ 8,182,838	$ 8,382,531	$ 8,297,381
$ 7,216,000	$ 3,632,000	$ 4,636,041	$ 1,509,097	$ 744,615	$ 1,180,799	$ 861,985
$ 38,609,518	$ 37,278,650	$ 28,421,054	$ 28,642,157	$ 31,952,798	$ 34,901,343	$ 38,330,102
1.65	1.70	1.45	1.52	1.65	1.89	2.11
$270,441,181	$254,673,551	$238,506,079	$204,396,738	$187,910,792	$175,568,622	$161,846,575
$158,443,634	$148,169,408	$139,023,940	$105,425,569	$ 94,049,305	$ 88,597,773	$ 81,910,676
$275,178,845	$257,857,849	$250,393,352	$206,575,808	$192,168,885	$178,667,961	$169,532,088
$ 44,975,575	$ 48,180,375	$ 40,582,062	$ 22,228,000	$ 20,151,500	$ 22,380,000	$ 24,609,500
3,238,453	3,238,453	3,238,453	3,238,453	3,238,453	3,238,453	3,238,453
4,719	4,955	5,297	5,351	5,585	5,870	5,810
37,500	37,500	37,500	37,500	37,500	37,500	37,500
934	1,086	1,104	1,168	1,197	1,264	1,302
12,477	11,163	10,521	10,004	8,189	5,972	5,926
10,899	9,816	9,321	8,910	7,368	5,402	5,360
96,383	93,943	96,307	85,279	85,171	82,878	84,433
106,409	102,287	101,421	92,709	90,727	86,589	85,964
106,984	104,948	106,918	92,287	91,411	91,283	94,771
$ 22,293,856	$ 21,114,061	$ 19,491,466	$ 17,274,602	$ 16,726,324	$ 16,411,238	$ 15,400,363
3,239	3,233	3,211	2,715	2,711	2,718	2,738

Source and Disposition of Funds

	For the years ended December 31	
SOURCE	**1968**	1967
Net income	**$20,735,763**	$17,055,474
Depreciation, depletion and amortization	**11,106,545**	10,306,680
Provision for income taxes-deferred	**1,191,000**	3,965,400
	33,033,308	31,327,554
Decrease in working capital	**1,347,235**	3,897,028
Additional long-term debt	**3,437,500**	—
Sale of fixed assets	**1,751,368**	1,609,968
	$39,569,411	$36,834,550
DISPOSITION		
*Capital expenditures	**$23,395,584**	$22,584,363
Reduction in long-term debt	**7,977,657**	7,936,406
Dividends declared — preferred stock	**150,000**	150,000
— common stock	**7,383,673**	6,412,137
Purchase of investments	**496,599**	(446,489)
Other (net)	**165,898**	198,133
	$39,569,411	$36,834,550
*Capital expenditures		
Producing	**$ 4,669,907**	$ 7,402,529
Manufacturing	**3,894,260**	3,633,869
Marketing	**11,477,503**	11,446,292
Other	**3,353,914**	101,673
	$23,395,584	$22,584,363

Products

TEXACO CANADA LIMITED

markets a full line of petroleum products in all ten provinces...

AUTOMOTIVE:

Sky Chief gasoline
Fire Chief gasoline
Havoline motor oil
Texaco motor oil
Texaco anti-freezes
Marfak lubricants
Gear lubricants
Texamatic transmission fluids
Quality Line specialties, such as:
- Car Cleaner and Polish
- Upper Cylinder Lubricant
- Windshield De-Icer
- Charcoal Lighter Fluid

AVIATION:

Aviation gasolines
Jet fuels
Aircraft engine oils
Synthetic jet engine oils
Aircraft hydraulic oils
Aircraft greases
Aircraft gear oils

MARINE:

Sea Chief gasoline
Outboard motor oil
Marine bunker fuels
Marine lubricants

GASES:

Liquefied petroleum gases

FUEL OILS:

Fuel Chief heating oils
Kerosene
Diesel fuels
Tractor fuels
Industrial fuels

MISCELLANEOUS:

Rustproof compounds

INDUSTRIAL:

Anti-friction bearing greases
Compressor oils
Construction and mining equipment lubricants
Diesel engine lubricants
Farm machinery lubricants
Forest and paper pulp industry lubricants
Gas engine lubricants
Hydraulic oils
Industrial gear lubricants
Industrial greases
Metalworking lubricants and coolants
Railway lubricants
Rubber processing oils
Steel mill lubricants
Texspray cotton conditioner
Textile mill lubricants

PETROCHEMICALS:

Benzene
Toluene
Xylene
Hexane
Feedstocks for chemical plants
Petroleum additives
Rust inhibitors
Solvents

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